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ANNUAL REPORT 1973

FINLAYSON ENTERPRISES LTD.

FINLAYSON ENTERPRISES LTD.

DIRECTORS

G. A. Boddy

F. B. Brooks-Hill

R. W. Finlayson

R. H. Hoppe

D. A. McIntosh, Q.C.

H. Sutherland, Q.C.

R. G. Wilson

OFFICERS

President	R. W. Finlayson
Vice-President	G. A. Boddy
Vice-President	R. G. Wilson
Secretary	H. Sutherland, Q.C.
Treasurer	J. C. Longworth

REGISTRAR AND TRANSFER AGENT

Canada Permanent Trust Company

Toronto, Ontario　　Winnipeg, Manitoba

BANKERS

The Bank of Nova Scotia

Toronto, Ontario

To the Shareholders of

FINLAYSON ENTERPRISES LTD.

Your Company's largest subsidiary, Beauty Industries Limited, continued to make progress during the year 1973 with record sales and profits. The Griffiths-Kerr division also had peak sales and profits. The agreement which Beauty Industries entered into to purchase the land and buildings occupied by this unit in Hamilton was cancelled.

As pointed out in previous comments made to the shareholders, the loss of a major account seriously affected the sales and profits of the Wood subsidiary. Despite the acquisition of two fragrance accounts, this subsidiary operated at a loss in the year 1973, as contrasted to a substantial profit in the previous year. The acquisition by Wood of the shares of Natrop Limited, a Canadian company in the cosmetic field, added to the total sales, but this division also operated at a loss.

You will note that total inventories have risen substantially. This is in part due to price increases from a number of our suppliers and in part to the necessity of ordering ahead because of shortages caused by the energy crisis. During 1973 Shareholders' equity was reduced by $81,429 due to the write-off of goodwill in the Natrop subsidiary. However the working capital ratio at the end of the year shows little change.

Because of general inflationary trends and much higher operating costs, substantial increases have occurred in the selling prices of the products manufactured by Beauty and those sold by Griffiths-Kerr. In addition the cost of borrowed money has become a major factor. In spite of these adverse trends both Beauty and Griffiths-Kerr should produce satisfactory results in the year 1974. In the fragrance and cosmetic subsidiaries, we have noticed a lessened demand in the first few months of 1974. We do not anticipate that these divisions will add substantially to the profits of the Company in 1974. In the first half of this year, when sales are seasonally lower, losses are expected.

Due to the competitive situation and unsettled conditions, it is too early to accurately forecast results for the year 1974. However despite a poor first quarter, the Company is budgeting for increased total profits in 1974.

R. W. FINLAYSON
President

March 29, 1974

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Consolidated Balance She

ASSETS

	1973	1972
Current		
Cash	$ 39,048	$ 27,689
Short term deposit receipts	—	50,000
Investment in income debenture, at cost	750,000	1,000,000
Marketable securities, at cost	—	13,257
Accounts receivable	1,101,518	1,146,279
Merchandise inventories, at lower of cost and net realizable value	1,330,623	993,547
Mortgage receivable—8%	—	10,927
Prepaid expenses	48,333	30,847
Total Current Assets	3,269,522	3,272,546
Fixed		
Equipment, automotive equipment and leasehold improvements, at cost	514,764	453,228
Less accumulated depreciation	373,741	334,773
Total Fixed Assets	141,023	118,455
Other		
Cash value of life insurance policies	52,442	49,365
	$3,462,987	$3,440,366

Approved on behalf of the Board:

R. W. Finlayson, *Director*

G. A. Boddy, *Director*

AUDITORS' REPORT

To the Shareholders
FINLAYSON ENTERPRISES LTD.

We have examined the Consolidated Balance Sheet of Finlayson Enterprises Ltd. and Subsidiary Companies as at 31 December 1973 and the Consolidated Statements of Earned Surplus, Profit and Loss and Source and Application of Funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these Consolidated Financial Statements present fairly the financial position of the Companies as at 31 December 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario, 22 March 1974

Dunwoody & Company
Chartered Accountants

ERPRISES LTD.

COMPANIES

as at 31 December 1973

LIABILITIES

	1973	1972
Current		
Bank indebtedness	$ 615,857	$ 410,682
Accounts payable and accrued charges	803,496	919,352
Income and withholding taxes	82,661	84,401
Current portion of long term debt	63,000	60,000
Total Current Liabilities	1,565,014	1,474,435
Long Term Debt, note 2	124,500	180,000
	1,689,514	1,654,435
Shareholders' Equity		
Share Capital		
Authorized		
2,384,392 6% cumulative preferred shares of par value $1 each, redeemable at the amount paid up thereon		
116,133 Common shares of no par value		
Issued and fully paid		
855,987 Preferred shares	855,987	855,987
77,817 Common shares	281,671	281,671
	1,137,658	1,137,658
Earned Surplus	635,815	648,273
Total Shareholders' Equity	1,773,473	1,785,931
	$3,462,987	$3,440,366

Consolidated Statement of Earned Surplus for the Year Ended 31 December 1973

	1973	1972
BALANCE, BEGINNING OF YEAR	$ 648,273	$505,899
Net profit for year	143,675	215,517
	791,948	721,416
Cash dividends paid during the year		
Preferred shares	51,359	49,798
Common shares	23,345	23,345
Excess of cost of shares of subsidiary over tangible book value—written off	81,429	—
	156,133	73,143
BALANCE, END OF YEAR	$ 635,815	$ 648,273

FINLAYSON ENTERPRISES LTD.
AND SUBSIDIARY COMPANIES

Consolidated Statement of Profit and Loss for the Year Ended 31 December 1973

	1973	1972
SALES (net), note 3	$5,690,841	$5,899,264
Profit on operations for the year, before accounting for the undernoted items	264,698	354,981
Add: Income from investments	43,784	51,472
	308,482	406,453
Less: Interest on indebtedness not initially maturing within one year	16,453	19,343
Provision for depreciation and amortization of fixed assets	39,603	38,227
	56,056	57,570
PROFIT FOR YEAR, before provision for income taxes	252,426	348,883
Provision for income taxes	108,751	133,366
NET PROFIT FOR YEAR, note 6	$ 143,675	$ 215,517

Consolidated Statement of Source and Application of Funds for the Year Ended 31 December 1973

	1973	1972
SOURCE OF FUNDS		
Operations		
Net profit for year	$ 143,675	$ 215,517
Depreciation and amortization, items not requiring an outlay of funds	39,603	38,227
Funds Obtained From Operations	183,278	253,744
Proceeds on disposal of fixed assets	6,925	29,354
Long term debt assumed on acquisition of subsidiary	6,250	—
TOTAL FUNDS OBTAINED	196,453	283,098
APPLICATION OF FUNDS		
Acquisition of fixed assets	69,096	53,418
Increase in cash value of life insurance policies	3,077	3,543
Acquisition of intangibles on purchase of shares of subsidiary	81,429	—
Repayment on long term debt	61,750	60,000
Redemption of preferred shares	—	155,634
Dividends paid during year—preferred shares	51,359	49,798
—common shares	23,345	23,345
TOTAL FUNDS APPLIED	290,056	345,738
DECREASE IN CONSOLIDATED WORKING CAPITAL	93,603	62,640
Consolidated working capital, beginning of year	1,798,111	1,860,751
CONSOLIDATED WORKING CAPITAL, END OF YEAR	$1,704,508	$1,798,111

FINLAYSON ENTERPRISES LTD.
AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 1973

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiary companies each of which is wholly-owned. During the year one subsidiary engaged in the manufacture of cosmetics was acquired and the Consolidated Statement of Profit and Loss includes the results of operations of this subsidiary from the date of acquisition, 30 May 1973.

2. LONG TERM DEBT

	1973	1972
7% unsecured debenture	$180,000	$240,000
Industrial Development Bank loan	7,500	—
	187,500	240,000
Current portion	63,000	60,000
	$124,500	$180,000

The 7% unsecured debenture is repayable in equal amounts on the 8th of August in each of the years 1974 to 1976 inclusive. The debenture is held by a Director of the Company.

The Industrial Development Bank loan is secured by a specific charge on certain equipment and fixtures of a subsidiary as well as a first floating charge on the remainder of the subsidiary's assets. The loan is repayable in monthly instalments of $250 plus interest at the rate of 9% per annum.

3. CLASSES OF BUSINESS

As required by the Canada Corporations Act the Directors are of the opinion that the proportion of sales from the different classes of business is as follows:

	1973	1972
Textiles	$4,597,819	$3,481,560
Cosmetics and Toiletries	1,093,022	2,395,634
Other	—	22,070
	$5,690,841	$5,899,264

4. REMUNERATION OF DIRECTORS AND OFFICERS

As defined in the Canada Corporations Act the aggregate remuneration of the seven Directors of the Company as Directors amounted to $2,000 (1972—$2,000); the aggregate remuneration of the five Officers of the Company as Officers amounted to $94,875 (1972—five—$88,292) and one of the Directors and Officers received $14,875 (1972—$36,333) from a subsidiary company as an Officer of that Company. Four of the Officers of the Company are also Directors.

As defined in The Securities Act (Manitoba) the aggregate direct remuneration paid or payable to directors and senior officers amounted to $280,279 (1972—$214,843).

5. LOSSES CARRY FORWARD

Losses for taxation purposes of approximately $125,000 are available in certain of the group companies for application against future years' profits of which approximately $92,000 expire in 1977 and the remainder in 1978.

6. EARNINGS PER COMMON SHARE

	1973	1972
Earnings per common share	$1.19	$2.04

Losses carried forward and depreciation timing differences had the effect of increasing earnings per common share in 1972 by $.28.

7. FOREIGN EXCHANGE

Liabilities in foreign currencies are converted at the rates of exchange in effect as at 31 December 1973.

8. CONTINGENT LIABILITY

Certain of the group companies are appealing from a decision of the Tax Review Board upholding income tax re-assessments totalling approximately $168,000 for the years 1966 to 1968. No provision has been made in the accounts for these re-assessments as it is the opinion of counsel that the Company should probably be successful in having the re-assessments set aside.

9. UNFUNDED PENSION BENEFITS

The Company's liability under its employee pension plan for unfunded past service and experience rating deficiency amounted to approximately $44,000 which is required to be funded in equal annual instalments of approximately $5,600 over the next three years and $3,900 over the subsequent seven years.